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SUBJECT: PUTIN'S YAMAL MEETING WITH INTERNATIONAL ENERGY
CEO'S YIELDS FEW RESULTS

Classified By: Econ MC Matthias Mitman for Reasons 1.4 (b/d)

Summary

¶1. (C) Lack of GOR coordination with Gazprom reportedly preceded PM Putin's September 25 meeting in Yamal with executives from eleven global energy giants. Press reports, industry newsletters and postings on the PM's website provide only general information on the meeting's outcomes without stating whether the GOR will offer tax breaks for development of the gas-rich Yamal peninsula. Even with tax breaks and international participation, gas from the region is likely many years, if not decades, away. End summary.

"NOT AN INVITATION"

¶2. (SBU) Press reported September 21 that PM Putin would meet "CEOs" from eleven international energy companies in the remote city of Salekhard in Yamalo-Nenetsk Autonomous Okrug on September 24 to discuss their potential participation in the development of the gas-rich Yamal Peninsula. According to contacts at some of the invited companies, Gazprom sent out invitations several weeks to ten days before the meeting to six companies with whom it already has working relationships -- Mitsui, Mitsubishi, Shell, Total, StatoilHydro, and Korgas. Then, less than one week before the meeting, the Russian White House announced that the Prime Minister would be meeting with the heads of eleven companies, including ExxonMobil, ConocoPhillips, ENI, Suncor, and Gaz de France.

¶3. (C) According to our contacts, these later invitations were issued without Gazprom's knowledge. ConocoPhillips government affairs manager Lena Zemskova (strictly protect) said that Gazprom Deputy CEO Alexander Medvedev only learned on September 17 of the addition of the five companies it did not itself invite to the meeting. She added that none of her contacts at the Ministry of Energy knew anything about the meeting and were asking her to provide them with details.

¶4. (C) In a September 22 conversation, ExxonMobil Russia President (strictly protect) Steve Terni called the invitation process "insulting." Terni equated it to the USG sending cables to embassies instructing them to inform their host governments that President Obama would be meeting with

their presidents in Nebraska in 3 days." Given the extremely short notice, ExxonMobil could not send its CEO. The company instead was represented by Neil Duffin, head of ExxonMobil Development.

15. (C) Zemskova said the letter ConocoPhillips received (late night on Friday September 18) "could not be described as an invitation." She said it was signed by a mid-level bureaucrat, was not addressed to any specific individual, and contained very few details as to what the meeting was about. She paraphrased it like this: "According to decree X and government decision Y, you have been approved to be included in a meeting with the Prime Minister..." Although ConocoPhillips CEO Jim Mulva made the meeting, Zemskova said the lack of information, short notice, and logistical difficulties of reaching the remote location of the meeting caused many headaches at her company.

16. (C) Shell government affairs manager Elena Polyakova (strictly protect) described the process as "very strange." Polyakova said Shell received its invitation about 10 days prior to the meeting and that her CEO attended. She said the confusion between Gazprom and the Russian White House resulted in constant changes to the time and agenda of the meeting, which she described as "very general."

FEW RESULTS

17. (C) Given the apparent organizational disarray and the
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usual experience with such events, company representatives expected little substance from the meeting. As of mid-day September 25, company representatives had not yet received a debrief from their principals. None of those with whom we spoke expected any new substantive incentives to have been presented by the Russians.

18. (SBU) The few details made public by press reports, industry newsletters, and information posted on the PM's website indicate that Russia might be ready to offer some tax-breaks for development of Yamal gas resources. These sources indicate that Russia would be looking to ship some gas from the region as LNG and is interested in obtaining expertise and technology as well as investment from western companies. On his website, Putin noted that Russia might expect asset swaps from participating companies. Beyond that, Putin simply described the vast gas production potential of the region and stressed that international companies would be welcomed as "members of our team."

19. (SBU) Industry sources note that Gazprom had previously said that the Bovanenkovo field would begin producing gas in late 2012. Gazprom was also looking to the combined Yamal fields (including Bovanenkovo) to produce 75-115 bcm/year in 2015, rising to over 300 bcm/year by 2030. Gazprom CEO Alexei Miller, following the Salekhard meeting, is now quoted as saying that, "currently we are at the pre-project stage; I don't believe this will happen earlier than 2015-2017." Industry analysts believe that the delay is due, in part, to reductions in Gazprom's capital expenditures. In addition to looking for western investment, technology and expertise, Gazprom is also reportedly looking to off-load some of the costs of Yamal development to other companies, with the cost of transportation infrastructure reportedly being moved to the Russian Railways company, thereby reducing Gazprom's costs.

COMPANIES CAUTIOUS

10. (SBU) ConocoPhillips CEO James Mulva is quoted in industry press as saying that "it is necessary to develop as

soon as possible a formula, a term contract for the industry to understand how companies will invest their money. It is also very important to know not only what the incentives will be, but also how the project will be managed."

¶11. (SBU) Shell CEO Peter Voser is quoted as saying, "We believe that difficulties can be overcome through a constructive partnership between Russian and international companies." Yet even he limited his statements, noting that Shell "is ready to undertake a study on the viability" of LNG projects in Yamal, but not committing the company to anything other than studies at this point.

¶12. (C) Responding to the question of why Chevron wasn't included in the meeting, Sergey Kuznetsov (strictly protect), Chevron's Vice President for Policy, Government, and Public Affairs, ridiculed interest in developing Yamal. "Why would we want to sink billions of dollars in a swamp," he told us September 22. He described Yamal as posing such logistical, technical, and financial challenges that it was simply not attractive to Chevron. BP's government and public affairs manager Anton Mifsud-Bonici (strictly protect) told us that BP prefers to work in Russia through TNK-BP, and that this meeting was only "act 1, scene 1, of a very long opera."

COMMENT

¶13. (C) We will seek out more details in the coming days of the GOR's and Gazprom's presentations at this meeting. As various contacts and analysts have pointed out, even with incentives for foreign participation, gas is unlikely to be flowing from Yamal anywhere close to the proposed 2012 date suggested by the GOR. End comment.
Rubin